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C O N F I D E N T I A L SECTION 01 OF 03 ASHGABAT 000154

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SUBJECT: TURKMENISTAN: U.S. ENTREPRENEUR AWARDED CONTRACT
FOR OIL CLEANUP PROJECT

REF: 07 ASHGABAT 968

Classified By: Charge d'Affaires a.i. Richard Miles. Reasons 1.4 (B) and (D).

1. (C) SUMMARY: Due to President Berdimuhamedov's interest in cleaning up oil pollution located around the Avaza Tourist Zone on the Caspian Sea, an Amcit businessman has concluded a contract for cleaning up oil spills -- contingent, however, on a successful demonstration that his technology can do the job. Estimates for revenues from the sale of the recovered oil are USD one billion. The businessman estimates that this job could keep him busy for the rest of his life since it will take at least 20 years to clean up such spills all over the country. It took him about 18 months to get the contract, after endless presentations and contract negotiations. Oil and Gas Ministry officials did not understand how to analyze contracts, and demands for bribes at the State Commodity and Raw Materials Exchange ranged from USD 10,000 to USD 220,000. His insights provide a snapshot of what it takes to conclude contracts in Turkmenistan. END SUMMARY.

LARGE PROFITS TO BE MADE FROM RECOVERABLE OIL

2. (C) An Amcit businessman said in a meeting on January 29 that the Ministry of Oil and Gas approved his proposal to clean up oil spills located around the coastal town of Hazar in Balkan province. However, the contract is contingent upon a successful demonstration of an oil spill cleanup. If the demonstration cleanup proves successful, the Ministry will award the company with a contract for as much work as the company can handle. The Amcit estimates that it will take over 20 years to clean up various pools of spilled oil around the country, which contain billions of tons of recoverable -- and sellable -- oil. The exact amount is difficult to estimate without further testing, but within ten years, he estimates that this project will generate USD one billion. His profit estimates through 2012 are: Government of Turkmenistan - about USD 71 million, and his company - about

USD 98 million (assuming oil is selling at USD 60 per barrel on the world market).

HOW DID THE OIL LAKES FORM?

13. (C) Following a year of negotiation, former Minister of Oil and Gas, Bayramgeldi Nedirow, signed this contract in July 2008. The initial site is located near the Nobel Oil Field, north of the city of Hazar (formerly Cheleken) which operated from 1890 until 1950. Numerous pools dot the landscape in the Galkynysh district, from the Nobel Oil Field, arcing east of town and then down to the "Hazar Oil Lake" located approximately seven kilometers south of town on the Caspian Sea coast. The Amcit explained that at the time of this field's operation, workers drilled for oil until it came gushing out, causing millions of gallons to be spilled. The fields were also improperly capped when drilling stopped.

Nowadays, open pools of oil remain all over the area, covering many tens of square kilometers, which have over time mixed with sand and thickened from evaporation. Photos of the crude oil pools show that underneath a crust of sandy dirt, sand and oil have mixed into a tar-like substance, which the Amcit claims is comprised of about 50 percent oil. He claims his equipment can remove approximately 95 percent of the oil and convert it to usable crude oil. His company's method to separate the oil, water, and sand is a complex process by which the sludge is liquified, main ingredients are separated via centrifuge, and then the usable crude is collected.

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AVAZA TOURIST ZONE BRINGS OFFICIAL INTEREST TO THE AREA

14. (C) The Amcit estimates that cleanup of the Hazar Oil Lake alone will take two years, a priority for the Ministry because of its location on the Caspian Sea, an area of great focus for the government because of its desire to develop the Avaza Tourism Zone (reftel). The lake is also a solid test case to prove the capabilities of this technology since the oil in this lake has essentially turned into cement after so many years of evaporation and mixture with sediment. It also contains decades of ancient raw sewage, so the company must still consider the process by which it will neutralize the facility's output to make it safe. The Hazar Oil Lake cleanup project will create about 100 jobs for Turkmen and 20 expatriate staff. The company will build a USD three million desalinization plant at the Hazar Oil Lake site over the next year, as a way to foster good relations with city officials. The desalinization plant will eventually also provide clean water for Hazar. After plant construction is completed, the company will separate the oil, water, and sand during a one-month test phase, during which he expects to recover 3,000 tons of crude oil.

POTENTIAL FOR THIS WORK IS ENDLESS, ALSO IN THE REGION

15. (C) He also said that companies are still drilling for oil in the Goturdepe area -- located further inland in Balkan province -- and additional "liquid lakes" that can be cleaned up are forming all the time. Simonov Lake, which used to function as a sturgeon breeding ground outside of Turkmenbashi, is a small project compared to other sites around the country with an estimated 200,000 tons of oil. The company expects that the BBC will shoot footage at the Hazar site that will be used to make a documentary. The company hopes that this will generate interest in this company's services, which it can then export to countries such as Kazakhstan and Azerbaijan.

BUSINESS CLIMATE: NOT SO GOOD

16. (C) The Amcit reported that the State Commodity and Raw Materials Exchange, which has to approve all contracts between Turkmen ministries and agencies and foreign companies, held the contract up for five months because his

company would not pay bribes. He also reported that State Commodity and Raw Materials Exchange officials demanded bribes ranging from USD 10,000 to USD 220,000, until the Minister of Oil and Gas stepped in and -- in the hallways of the Exchange -- demanded to know what was happening with this contract and what was holding it up. He shared a list of lessons learned:

-- It is important that your project be worthwhile, and that it will present no risk -- financial or otherwise -- to Turkmenistan. (NOTE: This company is supplying all of the initial investment funds, totaling \$35 million, which it has privately raised. END NOTE.)

-- The company has found that their local lawyer, who the Amcit describes as having "good connections in government" due to longstanding relationships with key individuals, an indispensable part of the project.

-- Turkmen government officials display alternating qualities of naivete (in believing the financial plan as presented) and disbelief (in what the technology can do). For example, the Turkmen accepted the estimated profit figures without questioning them, but because they don't understand the technology -- regardless of the company's many site testimonies from all over the world -- this agreement is

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simply a contract and not a production sharing agreement until the company can prove that it can do the job of recovering oil. Curiously, the Turkmen also made sure during the negotiations that the Amcit's company would make enough profit.

-- It was critical to the project's approval that technical experts from the Ministry and the Institute of Oil and Gas developed a positive view of the project's potential because Ministry officials expected to get their stamp of approval before the project would move forward.

-- The Amcit presented the project to the Ministry just a few days after the president told the Minister to get the oil spills cleaned up, so the company benefited from being in the right place at the right time. This example also illustrates that when the President says jump, the ministers do just that.

-- The Amcit said that companies shouldn't "assume that they (the Turkmen) will understand, and you should know how much explanation is required" in terms of contract analysis and technical issues. He specifically recommended that Turkmen officials get training in project evaluation, net present value, and internal rate of return, so that they have skills that will give them the confidence to conclude deals in a timely manner.

-- No one in the Turkmen government wants to be held responsible for making the wrong decision. This contributes to the delay in concluding contracts, because officials keep passing the buck up the food chain until someone feels that he has the authority to make a decision and sign a contract.

17. (C) COMMENT: These insights provide a snapshot of what is necessary to conclude contracts in Turkmenistan, and recommendations for capacity-building projects that can help this country make progress. The story is not over yet: in a country where rule of law is not respected and international arbitration doesn't exist, it remains to be seen whether this U.S. businessman has found a reliable partner in the Government of Turkmenistan. END COMMENT.

MILES